

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 IGA-02 ABF-01 FS-01 OMB-01 L-03

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R 201550Z FEB 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 269

US DEPT OF TREASURY

LIMITED OFFICIAL USE SECTION 1 OF 2 CAIRO 2282

E.O. 11652: N/A

TAGS: OVIP, (SIMON, WILLIAM), EFIN

SUBJECT: DEPOSIT OF EGYPTIAN POUNDS

REF: CAIRO 1947

1. FOLLOWING ARE TEXTS OF DOCUMENTS SENT TO EGYPTIANS. THEY ARE SUBMITTED FOR RECORDS OF DEPT AND TREASURY. INTERESTED MEMBERS OF SECRETARY SIMON'S PARTY MAY WISH REVIEW THEM PRIOR ARRIVAL IN CAIRO.

2. FOREIGN OFFICE NOTE NO. 63 DATED JANUARY 21, 1976. QUOTE THE EMBASSY OF THE UNITED STATES OF AMERICAN PRESENTS ITS COMPLIMENTS TO THE MINISTRY OF FOREIGN AFFAIRS OF THE ARAB REPUBLIC OF EGYPT AND HAS THE HONOR TO INVITE THE ATTENTION OF THE MINISTRY TO THE RATE OF INTEREST CURRENTLY BEING PAID ON DEPOSITS IN LOCAL BANKS OF EGYPTIAN POUNDS OWNED BY THE GOVERNMENT OF THE UNITED STATES.

QUOTE THESE ACCOUNTS REQPRESENT THE COUNTERPART COSTS OF ASSISTANCE PROVIDED OVER THE COURSE OF SEVERAL YEARS, IN WHICH THE UNITED STATES ACCEPTED PAYMENT IN EGYPTIAN POUNDS IN ORDER TO REDUCE THE IMPACT ON THE LIMITED FOREIGN EXCHANGE RESERVES OF THE EGYPTIAN GOVERNMENT, AND THEREBY MAXIMIZE THE BENEFIT TO
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EGYPT OF THE ASSISTANCE DELIVERED. AT THE PRESENT TIME, INTEREST

IS BEING PAID ON THE DEPOSITS AT THE RATE OF ONE-HALF PERCENT PER ANNUM.

QUOTE THE GOVERNMENT OF THE UNITED STATES, PARTICULARLY AS REFLECTED BY REACTION IN THE CONGRESS, IS VERY INTERESTED IN EARNING A GREATER RATE OF RETURN ON ITS ACCOUNTS IN EGYPTIAN BANKS IN KEEPING WITH THE RECENT MEASURES TAKEN TO RAISE INTEREST RATES AND LIBERALIZE THE BANKING SECTOR IN EGYPT. A LETTER ON THIS SUBJECT HAS BEEN SENT TO THE GOVERNOR OF THE CENTRAL BANK. THE EMBASSY REQUESTS THE ASSISTANCE OF THE MINISTRY IN ELICITING A FAVORABLE RESPONSE TO THIS REQUEST FOR THE PURPOSE OF A HIGHER RATE OF INTEREST FROM THE APPROPRIATE EGYPTIAN GOVERNMENT AUTHORITIES.

QUOTE THE EMBASSY OF THE UNITED STATES OF AMERICA AVAILS ITSELF OF THIS OPPORTUNITY TO RENEW TO THE MINISTRY OF FOREIGN AFFAIRS THE ASSURANCE OF ITS HIGHEST CONSIDERATION. UNQUOTE

3. AIDE MEMOIRE LEFT WITH CENTRAL BANK GOVERNOR ZENDOU AND MINISTER OF FINANCE AHMED ABU ISMAIL QUOTE THE EGYPTIAN POUNDS WHICH ACCRUED AS THE RESULT OF SALES OF AGRICULTURAL COMMODITIES IN EGYPT SUPPLIED UNDER THE UNITED STATES PUBLIC LAW 480 TITLE I ARE DEPOSITED TO THE ACCOUNT OF THE UNITED STATES GOVERNMENT IN VARIOUS EGYPTIAN BANKS ACCORDING TO THE AGREEMENT SIGNED AT CAIRO JANUARY 3, 1966. THESE DEPOSITS PRESENTLY DRAW AN INTEREST RATE OF 0.5 PERCENT.

QUOTE THE GENERAL ACCOUNTING OFFICE OF THE UNITED STATES HAS ADVISED THAT THE CONGRESS WISHES TO INSURE THAT SUCH ACCOUNTS RECEIVE THE HIGHEST POSSIBLE INTEREST. IN THE PAST, WHEN THE EGYPTIAN BANKING SYSTEM WAS UNDER RELATIVELY STRICT CONTROLS, THE UNITED STATES GOVERNMENT WAS PREPARED TO ACCEPT THE INTEREST THAT WAS BEING PAID. NOW THAT MOVES HAVE BEEN TAKEN TO LIBERALIZE THE BANKING SYSTEM, THE EMBASSY OF THE UNITED STATES OF AMERICA, THROUGH A LETTER FROM THE AMBASSADOR TO THE GOVERNOR OF THE CENTRAL BANK DATED JANUARY 13 AND NOTE NUMBER 63 TO THE MINISTRY OF FOREIGN AFFAIRS OF JANUARY 21, 1976, HAS REQUESTED THAT THESE DEPOSITS DRAW THE MAXIMUM POSSIBLE INTEREST. IT IS ITS UNDERSTANDING THAT EGYPTIAN BANKS ARE CURRENTLY PAYING INTEREST RATES ON TIME DEPOSITS OF UP TO FIVE PERCENT. LIMITED OFFICIAL USE

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QUOTE IT IS CUSTOMARY FOR THE UNITED STATES DEPARTMENT OF THE TREASURY TO REQUIRE THAT DEPOSITS OF UNITED STATES GOVERNMENT CURRENCY HOLDINGS BE IN AMERICAN-OWNED BANKS OR IN BANKS HAVING SUBSTANTIAL AMERICAN INTERESTS. THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT HAS RECENTLY APPROVED THE ESTABLISHMENT OF SEVERAL JOINT VENTURE BANKS, INCLUDED AMONG WHICH IS THE CHASE NATIONAL BANK, 51 PERCENT OF WHICH IS OWNED BY THE

NATIONAL BANK OF EGYPT AND 49 PERCENT OF WHICH IS OWNED BY THE CHASE MANHATTAN BANK, AN AMERICAN BANK. IN CONFORMANCE WITH UNITED STATES TREASURY PRACTICE, THE EMBASSY INTENDS TO TRANSFER 10 MILLION POUNDS FROM ITS PRESENT EGYPTIAN CURRENCY HOLDINGS FOR DEPOSIT IN THE CHASE NATIONAL BANK. THE EMBASSY EXPECTS THAT THIS DEPOSIT WILL BE TREATED LIKE ANY OTHER EGYPTIAN TIME DEPOSIT AND WILL BE SUBJECT TO NORMAL BANK USAGE.

QUOTE IT IS THE EMBASSY'S UNDERSTANDING THAT CERTAIN NEW BANKING REGULATIONS HAVE BEEN APPLIED WHICH WOULD REMOVE ALL SUCH UNITED STATES GOVERNMENT DEPOSITS FROM TRADITIONAL BANKING USAGE AND PERMIT THEM TO EARN ONLY A VERY LOW RATE OF INTEREST. IF SUCH IS THE CASE, THE UNITED STATES TREASURY REQUESTS THAT SUCH DISCRIMINATORY RESTRICTIONS BE REMOVED.

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ACTION EB-07

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 270

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QUOTE THE EMBASSY IS AWARE THT CERTAIN INFLATIONARY PRESSURES WOULD RESULT IF THE NORMAL BANKING USE OF THE ENTIRE AMOUNT OF UNITED STATES GOVERNMENT EGYPTIAN POUND HOLDINGS WERE PERMITTED. RATHER, THE UNITED STATES TREASURY PROPOSES THAT, IN ADDITION TO THE 10 MILLION POUNDS TO BE TRANSFERRED TO THE CHASE NATIONAL BANK, UP TO 20 PERCENT OF THE SUM OF TOTAL DEPOSITS IN ACCOUNTS NOW HELD BY THE UNITED STATES GOVERNMENT BE FREED FROM ALL RESTRICTIONS FOR USE BY EGYPTIAN BANKS IN ANY NEW ACCOUNTS OPENED BY THE UNITED STATES GOVERNMENT. BANKS RECEIVING NEWLY TRANSFERRED DEPOSITS WOULD CONTINUE, OF COURSE, TO OBSERVE THE NORMAL RESERVE REQUIREMENTS ON DEPOSITS, BUT THE REMAINDER OF THESE DEPOSITS WOULD

BE USED AT THEIR DISCRETION JUST AS ANY OTHER EGYPTIAN POUND DEPOSIT MIGHT BE USED. THE PURPOSE OF THIS IS TO MAKE THESE SUMS AVAILABLE FOR LOANS TO THE PRIVATE SECTOR IN THE INTEREST OF PROMOTING THE GROWTH OF PRIVATE ENTERPRISE. IT WOULD BE EXPECTED THAT BANKS HOLDING THESE ACCOUNTS WOULD PAY A COMPETITIVE RATE OF INTEREST TO THE UNITED STATES GOVERNMENT ON THESE DEPOSITS TO AVOID THE DANGER OF "WINDFALL" PROFITS FOR THE BANKS.
UNQUOTE

4. LETTER FROM AMBASSADOR TO MANAGING DIRECTOR, CHASE NATIONAL BANK, DATED JANUARY 13, 1976.

QUOTE DEAR MR. NEUBERT: AS YOU KNOW, CHASE NATIONAL HAS BEEN DESIGNATED AS A DEPOSITARY FOR THE PURPOSE OF HOLDING LIMITED OFFICIAL USE

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ACCOUNTS OF THE GOVERNMENT OF THE UNITED STATES. IN KEEPING WITH CONVERSATIONS YOU HAVE HAD WITH MEMBERS OF THE EMBASSY STAFF, WE ARE PREPARED TO TRANSFER A PORTION OF THE EGYPTIAN POUND ACCOUNTS OWNED BY THE GOVERNMENT TO YOUR BANK.

QUOTE BEFORE TAKING SUCH ACTION, HOWEVER, I HAVE TO ADVISE YOU THAT THE GENERAL ACCOUNTING OFFICE OF THE UNITED STATES HAS INDICATED THAT CONGRESS WISHES TO INSURE THAT SUCH ACCOUNTS RECEIVE THE HIGHEST POSSIBLE INTEREST. IT IS, THEREFORE, MY INTENTION TO SEEK TO SECURE THIS BENEFIT FOR OUR ACCOUNTS IN EGYPT. I WOULD APPRECIATE INFORMATION AS TO THE AMOUNT OF INTEREST CHASE NATIONAL BANK WILL BE PREPARED TO PAY ON THIS ACCOUNT, WHICH COULD TOTAL AS MUCH AS 10 MILLION EGYPTIAN POUNDS. UNQUOTE

5. LETTER FROM AMBASSADOR TO THE GOVERNOR OF THE CENTRAL BANK OF EGYPT DATED JANUARY 13, 1976.

QUOTE EXCELLENCY:

AS YOU KNOW, OVER THE PAST 20 YEARS, THE UNITED STATES OF AMERICA HAS PROVIDED LOANS OF VARIOUS KINDS FOR ECONOMIC ASSISTANCE TO THE EGYPTIAN GOVERNMENT. THE TERMS OF REPAYMENT PERMITTED MUCH OF THIS AID TO BE SETTLED IN POUNDS IN ORDER TO RENDER THE GREATEST BENEFIT TO THE EGYPTIAN ECONOMY BY NOT PLACING AN ADDITIONAL BURDEN ON ITS FOREIGN EXCHANGE RESERVES.

QUOTE THE ACCOUNTS REPRESENTING THESE PAYMENTS ARE HELD IN A NUMBER OF EGYPTIAN BANKS, WHERE THEY PRESENTLY DRAW MINIMAL INTEREST. IN THE PAST, WHEN THE BANKING SYSTEM WAS UNDER RELATIVELY STRICT CONTROLS, MY GOVERNMENT WAS PREPARED TO ACCEPT THE INTEREST THAT WAS BEING PAID. NOW THAT MOVES HAVE BEEN TAKEN TO LIBERALIZE THE SYSTEM, I HAVE BEEN INSTRUCTED TO INVITE YOUR ATTENTION TO THE STRONG DESIRE OF THE CONGRESS TO HAVE DEPOSITS OF THE UNITED STATES ABROAD DRAW THE MAXIMUM POSSIBLE

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IS NOW BEING PAID BY EGYPTIAN BANKS ON TIME
DEPOSITS
THAN THE 0.5 PERCENT CURRENTLY BEING PAID ON DEPOSITS OF THE
UNITED STATES GOVERNMENT. I, THEREFORE, REQUEST THAT SUCH
UNITED STATES GOVERNMENT DEPOSITS ALSO EARN A HIGHER RATE.
SHOULD YOU WISH, I WILL ASK MY ECONOMIC COUNSELOR, MR.
EDWARD PECK, TO CALL ON YOU AT YOUR CONVENIENCE TO DISCUSS THE
SUBJECT. UNQUOTE.
EILTS

NOTE BY OCT: SECTION 2, CAIRO 2282, ### OMISSION; CORRECTION TO
FOLLOW.

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